

Civil Rights, Labor, Consumer Protection, & Advocacy Groups
OPPOSE the Auto Dealer Exemption

June 16, 2010

Dear Financial Reform Conferee:

On behalf of the undersigned organizations, we strongly urge you to reject any language in H.R. 4173 that would exempt auto dealers from the proposed Consumer Financial Protection Agency (CFPA). While the sale of a car itself should not fall within the jurisdiction of the CFPA, auto dealers who originate or broker loans should not receive any special treatment under H.R. 4173.

Much like the mortgage industry, some auto financing practices have become predatory and abusive in nature, with dealers frequently steering too many car buyers into loans that are more expensive than they need to be. Auto sales and service complaints, typically related to predatory lending practices at dealerships, now rank #1 among complaints lodged with state and local consumer protection agencies. Because motor vehicles are the second-largest purchase most consumers make, and the average price of a new car is now more than \$28,000, the consequences can be drastic.

Moreover, as numerous studies and class action litigation have shown, there is overwhelming evidence of racial and ethnic disparities in the auto lending process, with minority car buyers paying significantly higher interest rates on dealer-originated loans than non-minority buyers *with the same credit scores*. Because of woefully inadequate regulations and policing by existing overseers, it took a considerable amount of class action litigation to bring these problems to light.

While much of the auto finance industry is now subject to class action settlements that prohibit racial and ethnic disparities, many of these settlements are set to expire soon. Under the industry carve-out included in the House-passed version of H.R. 4173, the same problems could easily recur. In the meantime, young people purchasing their first cars and members of the Armed Forces remain highly vulnerable. Financial stress is the second largest stress for military personnel, ahead of deployments, health, life events, family relationships, and war/hostilities. "Since auto financing represents the most significant financial obligation for a majority of Service members," Under Secretary of Defense Clifford Stanley wrote to Assistant Secretary of Treasury Michael Barr, "we believe the intervention of the CFPA in overseeing auto financing and sales for Service members will help protect them."

Predatory auto lending practices such as excessive dealer markups, "yo yo financing," and "buy here, pay here" have driven many Americans into a vicious cycle of negative equity, as more vehicle owners sink deeper into debt for a product that for many families is a necessity. Estimates have shown that as many as 85% of Americans with car loans have negative equity, and that borrowers owe, on average, \$4,400 more than their cars are worth.

For these reasons, the auto dealer “loophole” in H.R. 4173 must be closed. Doing so will protect consumers without hurting honest auto dealers who play by the rules. Thank you for your consideration.

For more information, please contact Cora Ganzglass, Legislative Director of the National Association of Consumer Advocates at cora@naca.net or Rob Randhava, Senior Counsel of The Leadership Conference on Civil and Human Rights at Randhava@civilrights.org.

Sincerely,

A. Philip Randolph Institute
American-Arab Anti-Discrimination Committee
Americans for Democratic Action, Inc.
Asian American Justice Center
Americans for Democratic Action, Inc.
Americans for Financial Reform
A New Way Forward
California Reinvestment Coalition
Campaign for America's Future
Center for Responsible Lending
Common Cause
Community Action Partnership
Connecticut Citizen Action Group
Consumer Action
Consumer Federation of America
Consumers for Auto Reliability and Safety
Consumers Union
Consumer Watchdog
Demos
Empire Justice Center
Greenlining Institute
Japanese American Citizens League
Lawyers' Committee for Civil Rights Under Law
Leadership Conference on Civil and Human Rights
Legal Aid Society – Employment Law Center
NAACP
National Alliance of Postal and Federal Employees
National Association of Consumer Advocates
National Association of Human Rights Workers
National Association of Social Workers
National CAPACD
National Community Reinvestment Coalition
National Congress of American Indians
National Congress of Black Women, Inc.
National Consumer Law Center (on behalf of its low income clients)
National Consumers League

National Council of La Raza
National Fair Housing Alliance
National People's Action
National Urban League
Neighborhood Economic Development Advocacy Project
New Jersey Citizen Action
Poverty & Race Research Action Council
Public Citizen
Sargent Shriver Center on Poverty Law
Service Employees International Union
Sojourners
The Leadership Conference on Civil and Human Rights
USAction
U.S. Public Interest Research Group
Woodstock Institute

Cc:

Speaker Nancy Pelosi
House Majority Leader Steny Hoyer
Senate Majority Leader Harry Reid
Congressional Black Caucus
Congressional Hispanic Caucus